



## OTHER FISCAL ISSUES

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### INTRODUCTION

This section discusses several fiscal issues not directly related to the Executive Budget, but that will potentially have an impact on the budget passed by the legislature and/or the budget process. The purpose of this section is to provide legislators with an overview of each of these issues. The issues discussed in this section are listed below and are discussed in more detail in the pages that follow.

- **Tobacco Settlement Funds.** The state expects to receive \$57.2 million in the 2005 biennium, at least 40 percent of which will be deposited into a trust. Another 49 percent was earmarked for specific purposes by ballot initiative in the 2002 election.
- **District Court Assumption.** The executive recommends a 2005 biennium budget for district court assumption of \$37.3 million. This is approximately \$17.2 million less than the amount requested by the Judicial Branch, and \$18.9 million more than 2003 biennium funding.
- **General Fund Statutory Appropriations.** Expenditures from statutory appropriations in the 2005 biennium are estimated at \$268.1 million, of which \$167.2 million is for entitlement payments to local government.
- **General Fund Non-Budgeted Transfers.** These transfers from the general fund to other funds in the 2005 biennium, at \$31.8 million, are markedly higher than in biennia that preceded HB 124 (2001 regular session).
- **General Fund Cash Position.** The project general fund ending cash position for fiscal 2003 is at a historical low point. The importance of the cash position is significant and sufficient cash is required to pay the state's budgeted obligations and close out the fiscal year books.
- **Local Government Assistance Restructuring.** Entitlements for counties, cities and consolidated governments will be \$7.5 million higher in the 2005 biennium than in the 2003 biennium. These rates of growth exceed the expected rate of growth in state revenues for the 2005 biennium.
- **Mental Health Services: Interim Study.** The Legislative Finance Committee has proposed five bills to implement recommendations of its mental health services study subcommittee.
- **Fund Balance Adequacy/Reserves.** With the experiences of the current biennium still fresh, the legislature will need to determine what amount of ending fund balance is sufficient to ensure budget stability, particularly with the uncertainties of Montana's revenue stream and its overall economic outlook.
- **Accruals.** Some expenditure accruals in fiscal 2002 not liquidated in fiscal 2003 can be removed according to the Legislative Fiscal Division.

- **Unified Computer Budget.** 17-7-123(1)(e)(iii), MCA requires that the Executive Budget include a “summary of budget requests that include proposed expenditures on information technology resources.” With this presentation, the legislature should be able to understand the magnitude and diversity of the information technology costs in the state budget, but is the information provided adequate for policy makers?
- **Other Major Funds.**
  - *Highway Special Revenue Account.* The 2003 legislature is faced with a declining working capital balance in the highways state special revenue account.
  - *Resource Indemnity Account.* Of seven accounts that have historically received portions of RIT allocations or interest earnings, four are projected to have negative balances by the end of the 2005 biennium.

## TOBACCO SETTLEMENT

Montana receives revenue as a settling party to a Master Settlement Agreement with four original tobacco companies and 34 subsequent companies that ended a four-year legal battle that included 46 states, and six other entities. Montana is eligible for four types of payment: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (two in fiscal 2000 with an additional one per year in fiscal 2001, 2002, and 2003); 3) on-going annual payments; and 4) strategic contribution payments (from fiscal 2008 through 2017). The Master Settlement Agreement places no restrictions on how states are to spend the money. The payments will be received in perpetuity.

### REVENUE

The total amount of tobacco settlement funds available to Montana may be affected by a number of adjustments. The two most important are the adjustments for inflation and volume of cigarettes shipped nationally. The amount of Montana's annual share will increase by a minimum amount of three percent or more if inflation is greater than three percent. The amount will decrease if the number of cigarettes shipped nationally decreases and will increase if the number increases. Figure 1 shows the revenue Montana has received through fiscal 2002 and the amounts to be received through fiscal 2005.

### DISTRIBUTION

In fiscal 2000, the revenue received from the Master Settlement Agreement was deposited to the general fund. However, due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, beginning in January 2001, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not determined the exact percentage to be distributed to the trust fund, the revenue estimates assume 40 percent. From fiscal 2001 through fiscal 2003, the remainder of the money (60 percent) will continue to be deposited into the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the total tobacco settlement money funds tobacco prevention programs and 17 percent funds the Children's Health Insurance Program. The remaining 11 percent of the total settlement money is deposited to the general fund. Figure 1 shows the amounts estimated to be distributed between the general fund, the trust fund, and state special revenue through fiscal 2005.

As stipulated in the Montana Constitution, interest earnings from the tobacco trust are to be distributed: 1) 90 percent for appropriation by the legislature for disease prevention programs and state programs providing benefits,

services, or coverage related to the health care needs of the people of Montana; and 2) 10 percent to the tobacco trust. Money in the tobacco trust can be spent if approved by 2/3 of each house of the legislature. Appropriations of principal, income, or interest from the trust fund cannot be used to replace state or federal money that support tobacco disease prevention programs that existed on December 31, 1999.

| Figure 1<br>Tobacco Settlement and Tobacco Trust Revenues and Distributions |                            |                     |                     |                      |                                 |                  |                    |
|---|----------------------------|---------------------|---------------------|----------------------|---------------------------------|------------------|--------------------|
| Fiscal Year   | Tobacco Settlement Revenue |                     |                     |                      | Tobacco Trust Interest Earnings |                  |                    |
|   | General Fund               | Trust Fund          | State Special       | Total                | State Special                   | Tobacco Trust    | Total              |
| 2000 Actual   | \$34,804,411               | \$0                 | \$0                 | \$34,804,411         | \$0                             | \$0              | \$0                |
| 2001 Actual   | 15,990,244                 | 10,650,750          | 0                   | 26,640,994           | 98,519                          | 71,172           | 169,691            |
| 2002 Actual   | 18,647,410                 | 12,431,607          | 0                   | 31,079,017           | 1,015,407                       | 22,212           | 1,037,619          |
| 2003 Estimate   | 19,025,400                 | 12,683,600          | 0                   | 31,709,000           | 1,566,900                       | 174,100          | 1,741,000          |
| 2004 Estimate   | 3,104,530                  | 11,289,200          | 13,829,270          | 28,223,000           | 2,217,600                       | 246,400          | 2,464,000          |
| 2005 Estimate   | 3,182,300                  | 11,572,000          | 14,175,700          | 28,930,000           | 2,927,700                       | 325,300          | 3,253,000          |
| Totals  | <u>\$94,754,295</u>        | <u>\$58,627,157</u> | <u>\$28,004,970</u> | <u>\$181,386,422</u> | <u>\$7,826,125</u>              | <u>\$839,184</u> | <u>\$8,665,310</u> |

## DISTRICT COURT ASSUMPTION

### OVERVIEW

Prior to July 1, 2002, Montana district courts were primarily funded by the counties, except district court judge's salaries and reimbursements to counties for some costs related to criminal felony cases, which were provided by the state. This changed during the 2001 legislative session when SB 176 was approved, requiring district courts to become a state administered and funded program, along with HB 124, intended to simplify the state and local government funding structure.

Under SB 176, the district courts, with the primary exception of the clerks of court and the provision of office space, became a state-funded function. Beginning in fiscal 2003, the state Judiciary assumed responsibility for oversight and administration of the 22 courts, including approximately 245 additional FTE. Implementation was accomplished through the efforts of the District Court Council, provided in SB 176 (2001 regular session), along with Judiciary staff. During this time and since implementation, the council and branch have encountered issues with SB 176 and continue to advocate that the bill was under-funded.

### FUNDING

#### *2003 Biennium*

Funding for the 2003 biennium was provided through HB 2 and HB 124. HB 2 provided an \$800,500 biennial appropriation to fund the addition of 8.50 FTE to administer state assumption of district courts. An appropriation was made in HB 124 for the remaining state district court costs of up to \$25.0 million. The fiscal 2003 appropriation was set at \$18.4, million based on 2001 county expenditures for district courts, plus a growth adjustment.

#### *Executive Recommended 2005 Biennium*

The executive recommended 2005 biennium budget for district court assumption is \$37.3 million. This is approximately \$17.2 million less than the amount requested by the Judicial Branch, and \$18.9 million more than 2003 biennium funding (2003 biennium funding is only for one year, since state assumption occurred in mid-biennium. Figure 2 shows the biennium to biennium comparison.

Figure 2  
District Court Assumption Funding Comparison  
2005 Biennium to 2003 Biennium

|                           | 2003 Biennium Budget (HB 124) |               |                | Executive Proposed 2005 Biennium Budget |               |                | Biennium Difference<br>2005 to 2003 |
|---------------------------|-------------------------------|---------------|----------------|---|---------------|----------------|-------------------------------------|
|                           | Fiscal 2002                   | Fiscal 2003   | Biennial Total | Fiscal 2004                             | Fiscal 2005   | Biennial Total |                                     |
| District Court Assumption |                               |               |                |   |               |                |                                     |
| FTE                       | 0                             | 245           | 245            | 245                                     | 245           | 245            | 0                                   |
| Personal Services         | \$ -                          | \$ 9,316,475  | \$ 9,316,475   | \$ 10,778,617                           | \$ 10,768,670 | \$ 21,547,287  | \$ 12,230,812                       |
| Operating Costs           | -                             | 8,804,084     | 8,804,084      | 7,434,309                               | 8,330,024     | 15,764,333     | 6,960,249                           |
| Equipment                 | -                             | 268,786       | 268,786        | -                                       | -             | -              | (268,786)                           |
| DC ASSUMPTION TOTAL       | \$ -                          | \$ 18,389,345 | \$ 18,389,345  | \$ 18,212,926                           | \$ 19,098,694 | \$ 37,311,620  | \$ 18,922,275                       |

District Court Assumption refers to the personal services costs for all FTE and associated operating costs assumed by the state under district court assumption as outlined in SB 176 (2001 regular session). This includes the operating costs of the District Court judges.

Costs are divided into “fixed” and “variable” costs. Section 61 of SB 176 describes the fixed budget component as costs that are not variable with caseload, including salaries and related operating costs for permanent employees of the court, and contracted professional services.

The variable cost component is those costs that are variable with caseload including but not limited to juror fees, witness fees and expenses, and indigent defense costs. In fiscal 2003, any costs over the appropriated level are the responsibility of the counties. However, under current law, these costs will be completely borne by the state, starting in fiscal 2004. In its original request, the Judiciary included an additional \$17.2 million over the biennium for these costs, beyond the executive funded \$15.1 million. The executive notes that a bill will be introduced to determine responsibilities regarding variable costs, and to address the difference between the agency request and the Executive Budget.

## LEGISLATIVE CONSIDERATIONS

Due to delayed implementation of state district court assumption (July 1, 2003), the fiscal 2002 base contains no district court expenditures, and a full biennium cost must be added to the 2005 biennium budget.

### *Issues*

The funding issue primarily pertains to the state's limited ability to control or predict the variable cost component. In addition, costs not addressed in SB 176 also add to the funding issue for Judicial Branch information technology needs, staff and operating expenses of new judges in Ravalli and Cascade counties, federal grant funded positions, and former county employee accrued annual and sick leave that must be paid when employees leave their state job. Information technology funding is requested in the Executive Budget under the Supreme Court Operations Program, and staff and operating costs of the new judges are included under district court assumption. The Judiciary will try to address the remaining two items without additional funding. Finally, increased costs attributed to pay raises, rent, and the judicial branch pay plan are included in the Executive Budget and have also contributed to a higher fiscal 2005 biennium budget.

### *Options*

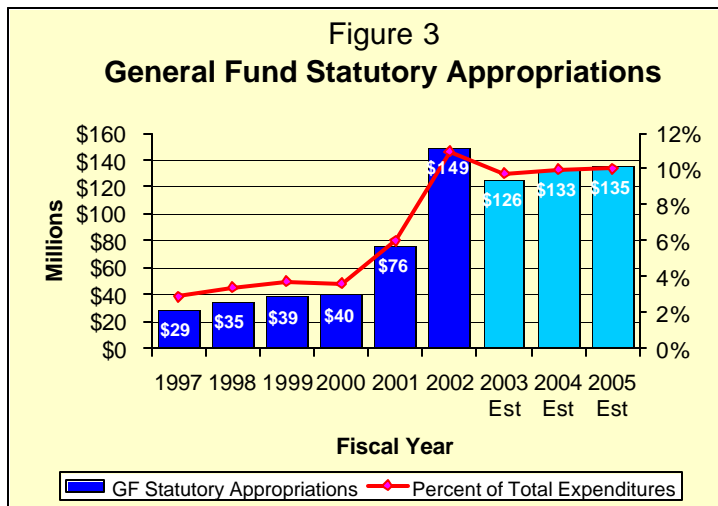
In order to deal with the uncertainties regarding variable costs associated with state assumption of district courts, options are provided.

- Create a state/local partnership for funding variable costs, such as continuing the 65 percent reimbursement mechanism established by the District Court Council for fiscal 2003, or establishing a base amount that counties would pay for variable costs, with the state funding everything above that amount
- Implement cost containment mechanisms, such as setting maximum amounts for attorney fees, investigation and psychiatric examination fees, standardizing the definition of indigent in statute, consolidating staff amongst judicial districts, or providing an incentive to the counties to help control costs by either reducing funds, increasing funds, or through cost sharing
- Defray a portion of court costs through mechanisms used in other states, such as increasing district court fees, charging a minimal administrative or application fee to all indigent defense criminals, including a surcharge on court filings, or including an additional fee on attorney licenses that is deposited into an indigent defense fund

For more information on the issues and options regarding district court assumption, see the corresponding agency narrative for General Government and Transportation beginning on page A-19 of Volume 3.

## GENERAL FUND STATUTORY APPROPRIATIONS

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations. Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation (HB 12) that required statutory appropriations to be contained in a list of statutory appropriations in 17-7-502, MCA, in order to be valid. That list provides statutory citations for each statutory appropriation. Although there are currently 69 sections listed, some sections have multiple statutory appropriations and each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of these, 16 sections statutorily appropriate general fund. In 1993, Senator Grosfield sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee. This requirement was removed by the 2001 legislature.



The significance of statutory appropriations lies not in the number of them, but rather in the amount of money being spent. All appropriations of general fund should be available for review and prioritization by the legislature, especially in times of stagnant growth in general fund revenue and projected present law deficits. Figure 3 shows the amount of general fund spent through statutory appropriations from fiscal 1997 through fiscal 2002 and estimated amounts from fiscal 2003 to 2005. From fiscal 1997 to fiscal 2002 general fund expenditures increased \$120 million and now comprise 11 percent of all general fund expenditures. Figure 4 shows each

individual general fund statutory appropriation that has been included in the general fund balance sheet.

Figure 4  
General Fund Statutory Appropriations  
Fiscal Years 2003-2005  
(in millions)

| MCA Cite             | Name                                    | Fiscal 2003 | Fiscal 2004 | Fiscal 2005 |
|----------------------|---|-------------|-------------|-------------|
| 10-3-312(1)          | EMERGENCY APPROPRIATIONS                | \$0.054     | \$4.000     | \$4.000     |
| 15-1-111(6)          | LOCAL ASST-PROP RED PA-SA               | 7.298       | 6.082       | 4.865       |
| 15-1-121(3)          | HB124 COMBINED DISTRIBUTION - SA        | 76.490      | 78.832      | 81.187      |
| 15-1-121(3)          | HB124 TIFF DISTRIBUION - SA             | 3.910       | 3.608       | 3.608       |
| 15-35-108(7)(b)(i)   | COOP DEVELOPMENTAL CENTER NMC           | 0.065       | 0.065       | 0.065       |
| 15-35-108(7)(b)(ii)  | ADD VISION 2005-SA                      | 0.925       | 1.250       | 1.250       |
| 15-35-108(7)(b)(iii) | ECONOMIC DEVELOPMENT                    | 0.675       | 1.100       | 1.100       |
| 15-35-108(7)(b)(iv)  | ECON DEVELOP STATUTORY                  | 0.175       | 0.175       | 0.175       |
| 15-35-108(7)(b)(v)   | REIMBURSEMENT OF TIFF-SA                | 0.600       | 0.600       | 0.600       |
| 17-3-106(2)          | CASH MANAGEMENT INTEREST-SA             | 0.269       | 0.269       | 0.269       |
| 17-6-101(6)          | BANKING CHARGES-SA                      | 1.181       | 1.172       | 1.172       |
| 17-7-502(4)          | TRANS DEBT SERVICE AND ISSUANCE COSTS   | 1.603       | 1.482       | 1.769       |
| 17-7-502(4)          | TRANSFER TO DEBT SERVICE A/B BOND-SA    | 17.096      | 18.272      | 17.661      |
| 19-13-604            | PREM TAX-FIRE/POL 19-13-604-SA          | 5.993       | 6.209       | 6.518       |
| 19-17-301            | PREM TAX-FIRE/POL 19-17-301-SA          | 1.225       | 1.317       | 1.409       |
| 19-18-512(1)         | PREM TAX-FIRE/POL 19-18-512-SA          | 0.162       | 0.164       | 0.165       |
| 19-19-305(1)         | PREM TAX-FIRE/POL 19-19-305-SA          | 0.264       | 0.266       | 0.268       |
| 19-19-506(4)         | PREM TAX-FIRE/POL 19-19-506-SA          | 0.017       | 0.017       | 0.018       |
| 19-20-604            | TEACHERS GABA 19-20-604-SA              | 0.659       | 0.692       | 0.727       |
| 19-3-319             | LOCAL GOVERNMENT PERD 19-3-319 -SA      | 0.404       | 0.417       | 0.439       |
| 19-9-702             | INS PREM TAX-FIRE/POLIC RET 19-9-702-SA | 6.886       | 7.232       | 7.634       |

#### LFD ISSUE

As shown in Figure 4, the largest statutory appropriation of general fund occurs under 15-1-121(3), MCA. For the 2005 biennium, \$167.2 million is expected to be spent for entitlement payments to counties and tax increment financing districts. Because this amount is appropriated in statute, it is not reviewed by the legislature as part of the biennial budgeting process. In essence, it and all other statutory appropriations have priority funding over all general fund programs appropriated in the general appropriations act. In times when the legislature must make difficult budget decisions and prioritize general fund programs to balance the budget, programs funded with general fund statutory appropriations should be considered by the legislature along with all other general fund programs.

As an alternative to funding counties and tax increment financing districts entitlement payments through a statutory appropriation, the legislature could eliminate the statutory appropriation and appropriate the costs in House Bill 2. This would ensure that this expenditure is reviewed and prioritized along with the other general fund programs in House Bill 2, and that the level of funding reflects the current legislature's funding priorities.

#### LFD ISSUE

Although the statutory appropriations in 15-35-108, MCA, terminate at the end of fiscal 2005, the executive is proposing legislation (LC 460) to extend the termination date to the end of fiscal 2010 for the appropriations to the Department of Commerce. At the appropriation levels proposed in the legislation, the extension will result in an additional \$4.75 million of statutorily appropriated general fund over the five-year period. The money would be spend by the Department of Commerce for: 1) a small business development center; 2) a small business innovative research program; 3) certified communities; 4) the Montana manufacturing extension center at MSU-Bozeman; and 5) export trade enhancement.



The legislature has authorized the office of the Governor to expend \$12.0 million general fund in a biennium whenever an emergency or disaster is declared by the Governor (10-3-312(1), MCA). The executive is requesting legislation (LC 321) to increase this amount to \$25.0 million, a \$13.0 million increase. Recent events funded from this appropriation include floods, storms, terrorism, and wildfires.

Figure 5  
General Fund Statutory Appropriation  
Expenditures Under 10-3-312(1), MCA

| Biennium/Fiscal Year | Total Expenditures | Wildfire Expenditures | Percent      |
|----------------------|--------------------|-----------------------|--------------|
| 2003 Biennium        |                    |                       |              |
| 2003*                | \$54,182           | \$0                   | 0.0%         |
| 2002                 | <u>11,120,638</u>  | <u>10,792,329</u>     | <u>97.0%</u> |
| Total                | \$11,174,820       | \$10,792,329          | 96.6%        |
| 2001 Biennium        |                    |                       |              |
| 2001                 | \$9,569,565        | \$8,939,421           | 93.4%        |
| 2000                 | <u>1,650,516</u>   | <u>1,108,402</u>      | <u>67.2%</u> |

As Figure 5 shows, the vast majority of the expenditures have been for wildfires. However, since most wildfires are not emergencies declared by the Governor, costs for the majority of individual wildfires are not paid by this appropriation. Only in extreme cases, such as in fiscal years 2001 and 2002, has the Governor declared wildfires an emergency. Even so, in those years the majority of wildfire costs are not reflected in Figure 5, since Federal Emergency Management Administration funds received by the state to pay wildfire costs were deposited to the general fund and paid from the statutory appropriation

under 10-3-203(2), MCA, rather than under 10-3-312(1), MCA. In addition, statute allows the statutory appropriation in 10-3-312(1), MCA, to be increased if money spent through the appropriation is recovered. Hence, the amount of money spent in a biennium may exceed \$12.0 million.

#### LFD ISSUE

Although the executive is requesting a statutory increase in the total biennial general fund statutory emergency appropriation to \$25.0 million, no expenditures have been included in the executive's 2005 biennium general fund balance from this appropriation even at the current law level of \$12.0 million. Although emergencies and disasters are difficult to predict, prudent budgeting requires that a portion of general fund be reserved for this contingency. It becomes an even greater necessity if the potential general fund expenditure is increased to \$25.0 million. Governor directed spending reductions or special legislative sessions may be required if events cause the expenditure of the entire \$25.0 million and nothing has been budgeted. The general fund balance projected by the Legislative Fiscal Division includes \$4.0 million of expenditures from this statutory appropriation in each year of the 2005 biennium.

#### LFD ISSUE

Although unbudgeted wildfire expenditures cause financial difficulties in the Department of Natural Resources and Conservation (see page C-120, Financial Difficulties), increasing the emergency statutory appropriation will not solve these problems unless the statutory requirement for a declared disaster or emergency is removed in the case of wildfire costs. For example, in fiscal 2003 the department spent \$5,514,180 for wildfires and expects to spend \$750,000 more by the end of the fiscal year. None of these costs are eligible to be paid with the emergency statutory appropriation because a disaster or emergency has not been declared.

## GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous funds and, with proper authorization, money may be transferred from one fund to another without an appropriation. This results in less money in one fund for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs.

Over the last two biennia, an increasing amount of money has been transferred out of the general fund to other funds for non-general fund programs.

As illustrated in Figure 6, this amount has grown from \$0 in fiscal 1999 to \$19 million in fiscal 2002, or nearly 1.2 percent of total general fund expenditures, and is estimated to be nearly \$32 million in the 2005 biennium. These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs. The programs funded from these transfers should be subject to the same review and prioritization as any other general fund programs to ensure proper funding of the legislature's priorities.

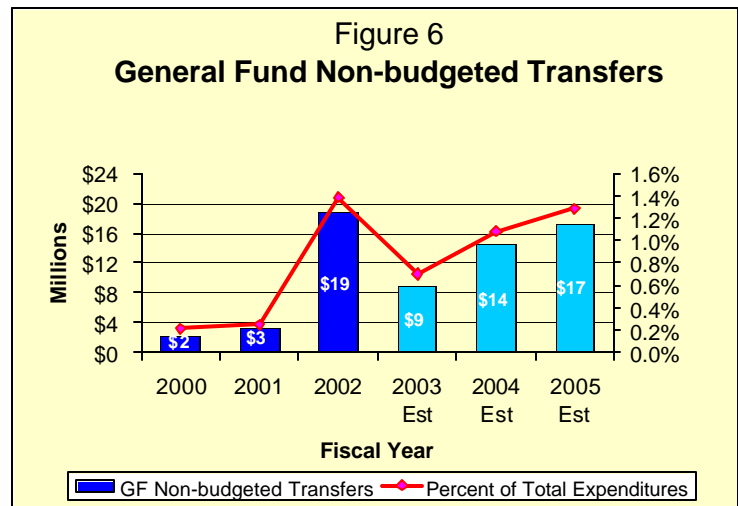


Figure 7 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet.

| Figure 7<br>General Fund Non-budgeted Transfers<br>Fiscal Years 2003-2005<br>(in millions) |   |              |              |              |
|--|---|--------------|--------------|--------------|
| MCA Cite   | Name                                    | Fiscal 2003  | Fiscal 2004  | Fiscal 2005  |
| <u>House Bill 124</u>  |   |              |              |              |
| 15-1-122   | HB 124 - Adoption services              | \$0.037      | \$0.040      | \$0.044      |
| 15-1-122   | HB 124 - to DOT (amended by HB5 SS)     | 0.075        | 2.961        | 3.005        |
| 15-1-122   | HB 124 - Junk vehicle titling fee       | 0.453        | 0.463        | 0.463        |
| 15-1-122   | HB 124 - Junk vehicle registration fee  | 1.030        | 1.055        | 1.055        |
| 15-1-122   | HB 124 - Weed registration fee          | 1.591        | 1.629        | 1.629        |
| 15-1-122   | HB 124 - Weed fee OHV FILT              | 0.023        | 0.027        | 0.026        |
| 15-1-122   | HB 124 - OHV decal fee                  | 0.119        | 0.122        | 0.122        |
| 15-1-122   | HB 124 - OHV duplicate decal fee        | 0.000        | 0.000        | 0.000        |
| 15-1-122   | HB 124 - Watercraft decal fee           | 0.130        | 0.133        | 0.133        |
| 15-1-122   | HB 124 - Snowmobile decal fee           | 0.121        | 0.124        | 0.124        |
| 15-1-122   | HB 124 - Snowmobile duplicate decal fee | 0.000        | 0.000        | 0.000        |
| 15-1-122   | HB 124 - Parks recreational fee         | 0.218        | 0.224        | 0.224        |
| 15-1-122   | HB 124 - Watercraft FILT 20%            | 0.249        | 0.292        | 0.289        |
| 15-1-122   | HB 124 - Highway patrol retirement      | 0.317        | 0.324        | 0.324        |
| 15-1-122   | HB 124 - DOT senior transportation      | 0.321        | 0.329        | 0.329        |
| 15-1-122   | HB 124 - Veterans license plates        | <u>0.152</u> | <u>0.156</u> | <u>0.156</u> |
| Subtotal   |   | \$4.835      | \$7.878      | \$7.923      |
| <u>Other</u>   |   |              |              |              |
| 15-35-108  | Research & commercialization (HB 5 SS)  | \$3.165      | \$3.650      | \$3.650      |
| 17-3-240   | To mineral impact account (HB 226)      | 1.044        | 2.934        | 5.745        |
| Subtotal   |   | \$4.209      | \$6.584      | \$9.395      |

## GENERAL FUND CASH POSITION

The projected general fund ending cash position for fiscal 2003 is at a historical low point. The ending fund balance of the general fund is made up of two major components, the biggest portion is cash and the remainder is in the form of accruals. Accruals are simply an estimate of expected revenues and disbursements during the fiscal year, where payment is expected within 60 days of the next year. The importance of the cash position is significant, and sufficient cash is required to pay the state's budgeted obligations. Often, to bolster monthly general fund cash balances, the Department of Administration (DOA) seeks authority from the Board of Examiners (BOE) to issue Tax and Revenue Anticipation Notes (TRANS). Because of the reduced level of revenues in fiscal 2002 and the anticipated reduced levels in fiscal 2003, the DOA issued \$93.0 million in TRANS in October 2002.

There are certain requirements that must be met before TRANS can be issued. Most importantly, TRANS must be paid in full prior to the end of the fiscal year of issue (17-1-204, MCA). Additionally, the debt is pledged and backed with the full faith and credit and taxing power of the state. According to 17-1-204 (2), MCA, *"if there are insufficient funds in the general fund to pay the notes and interest on the notes when due, the department shall transfer available funds from any fund of the state, except pension trust funds, to the general fund to pay the notes and interest."*

In estimates provided by the DOA, the ability to pay off the fiscal 2003 TRANS with general fund monies may not be possible without borrowing from some other state account. At this time the general fund ending balance for fiscal 2003 is estimated at \$4.4 million. Of that balance, there is an approximate \$5.0 million differential between the ending fund balance and the cash balance of the general fund. This suggests that at the end of fiscal 2003, the general fund will have a negative \$0.6 million ending cash balance and will not have sufficient cash to repay the TRANS. Consequently, the executive has proposed two bills to solve the cash dilemma. The first proposal is to adjust the accounting methodology for oil and gas production taxes. This proposal will only provide added accruals and will not solve the immediate cash shortage. The second proposal is to transfer cash from the State Fund to the general fund. If these proposals are not approved by the legislature, the general fund could end the year in a negative cash position, and the DOA would be required to transfer funds from some other account to pay back the TRANS debt.

In November 2002, the Legislative Finance Committee sought legal advice on the constitutionality of paying the TRANS by borrowing monies from other state accounts, given the provisions of the Montana Constitution, Article VIII, Section 8. This article states that, *"No state debt shall be created to cover deficits incurred because appropriations exceeded anticipated revenue."* In his decision, Greg Petesch, Chief, Legislative Legal Counsel, determined that, "The need for the state general fund to borrow money from other state funds in order to pay the notes as authorized in 17-1-204 and 17-2-105, MCA, does not create additional debt, but merely changes the form of evidence of the existing authorized debt." In other words, the state could use money from other funds, with exception of pension funds, to repay the TRANS, as long as any demands on the fund are not impaired.

The intent of the issuance of TRANS are clearly listed in the compiler's comments associated with Title 17, Chapter 1, part 2. The ability to issue TRANS to provide cash for monthly cash flow deficits was first used in 1979. At that time, the legislature faced a situation similar to that of fiscal 2002. Of particular importance is Section 2 of the compiler's comments which indicates the intent of TRANS was to curtail the need for borrowing from other state funds. When the TRANS process was established,

clearly the legislature wanted a method for mitigating monthly cash flow problems without utilizing monies from other funds.

At the beginning of fiscal 2003, the DOA sought authorization from the BOE to issue \$93.0 million in TRANS. This action was taken to provide adequate monthly cash flow and to remove the necessity of borrowing from other funds. At the end of fiscal 2003, current estimates suggest there will not be enough cash to repay the TRANS without borrowing from other state funds. Furthermore, the continued problems with cash flows will likely necessitate the issuance of another large TRANS issue in fiscal 2004.

The legislature may want to consider whether a statutory change is necessary to better reflect legislative intent and protect state financial stability.

## LOCAL GOVERNMENT ASSISTANCE RESTRUCTURING

In 2001, the legislature passed HB 124, which substantially changed the financial relationship between state and local governments.

Beginning in fiscal 2002, HB 124 reallocated revenue to the state that had formerly gone to local jurisdictions. The revenues reallocated were state mandated vehicle taxes and fees, video gaming taxes, financial institution taxes, alcoholic beverage taxes, and other smaller sources.

HB 124 replaced the local revenue by creating entitlements for counties and cities. In fiscal 2002, the level of entitlement to each county and city was the amount of revenue lost by each entity based on actual receipts from these revenue sources in fiscal 2001. In addition, the entitlements included the amount of SB 184 reimbursements each jurisdiction received in fiscal 2001. SB 184 reimbursements were payments from the state to local jurisdictions for reductions in the property tax base in each jurisdiction due to several pieces of legislation passed during the 1999 legislature. The property tax base reductions included reductions in tax rates for business equipment, electrical generating and telecommunications property, livestock, and oil and gas production. Future payments of SB 184 reimbursements to local jurisdictions were to remain fixed over time.

HB 124 contained a procedure that defines a growth factor to be applied to entitlements in the future. It was intended that HB 124 entitlements were to grow 3 percent for cities, 2.3 percent for counties and 2.65 percent for consolidated governments in fiscal 2002 and 2003. However, HB 124 mistakenly contained a growth rate of 3 percent for entitlements to all jurisdiction types. HB 18, passed during the August 2002 special session, reduced entitlements in fiscal 2003 to account for the higher than intended growth rates for counties and consolidated county city governments contained in HB 124.

Growth factors in future HB 124 entitlements in fiscal 2004 and 2005 are based on the actual growth in Montana's total personal income and gross state product. Growth rates over the prior four years for which data is available for each data series is averaged. Cities are entitled to a growth factor of 70 percent of the average growth of the combined series. For counties, the growth factor is 54 percent while consolidated governments is 62 percent of the combined services.

Figure 8 shows the calculation of the growth rate for each local government type for fiscal 2004 and 2005. Each entitlement will increase by approximately 10 percent more than in each year of the 2003 biennium.

Figure 8  
Financial Data for Calculation of HB 124 Entitlement Growth  
for Cities and Counties  
Fiscal 2004 and 2005

| Calendar Year            | Montana Gross State Product Millions | Calendar Year | Montana Personal Income Millions |
|--------------------------|--------------------------------------|---------------|----------------------------------|
| 1996                     | \$ 18,074                            | 1997          | \$ 17,726                        |
| 1997                     | 18,907                               | 1998          | 18,942                           |
| 1998                     | 19,971                               | 1999          | 19,380                           |
| 1999                     | 20,564                               | 2000          | 20,678                           |
| 2000                     | 21,777                               | 2001          | 21,673                           |
| Average Growth           |                                      |               |                                  |
| Period                   | Gross State Product                  | Period        | Personal Income                  |
| 1996-1999                | 4.40%                                | 1997-2000     | 5.27%                            |
| 1997-2000                | 4.82%                                | 1998-2001     | 4.59%                            |
| Fiscal 2004              |                                      | Fiscal 2005   |                                  |
| <b>Average Growth *</b>  | <b>4.83%</b>                         |               | <b>4.71%</b>                     |
| City Growth Rate         |                                      | 70%           |                                  |
| County Growth Rate       |                                      | 54%           |                                  |
| Consolidated Growth Rate |                                      | 62%           |                                  |
| Fiscal 2004              |                                      | Fiscal 2005   |                                  |
| City Growth Factor       | 3.38%                                |               | 3.30%                            |
| County Growth Factor     | 2.61%                                |               | 2.54%                            |
| Consolidated Growth      | 3.00%                                |               | 2.92%                            |

\* Average Growth for fiscal 2004 is Gross State Product growth for 1996-1999 averaged with Personal Income growth for 1997-2000. Average growth for fiscal 2005 is the same with period moved forward one year.

In total, entitlements for cities, counties, and consolidated governments will be \$8.9 million (5.9 percent) higher in the 2005 biennium than in the 2003 biennium. These rates of growth exceed the expected rate of growth in state general fund revenues for the 2005 biennium. The executive has not recommended any change in entitlement growth rates.

**LFD  
ISSUE**

The language in 15-1-121, MCA states that the department must make the calculations of growth in Montana gross state product and total personal income by October 1, 2004 – for growth rates in the following biennium. This would mean that the above calculations would apply to the 2007 biennium, leaving the growth rates for the 2005 biennium unspecified. This is because October 1, 2004, is already in the 2005 biennium. A simple amendment to statute would be to change the date by which the department must make its growth calculations to October 1, 2002. The Executive Budget entitlement calculations are based on the October 1, 2002, date.

## MENTAL HEALTH SERVICES: INTERIM STUDY

HJR 1 passed by the 2001 legislature, directed the Legislative Finance Committee (LFC) to study public mental health issues. As directed by HJR 1, the LFC established a subcommittee with membership from the Children and Families Interim Committee, the Legislative Audit Committee, the State Administration and Veterans' Affairs Interim Committee, and the Law and Justice Interim Committee.

The LFC directed the subcommittee to narrow the focus of the study and to focus on areas outside the scope of other entities working on mental health issues, including the Mental Health Oversight Advisory Council and the Multi Agency Children's Committee, dealing with integration of services for children with intensive needs. The study was designed to review issues and topics that:

- Were important to the mental health system and "do-able" within the study time frame
- Would complement but not duplicate what other players are considering
- Would identify potential changes to mental health services that are compatible with any regional system design
- Would provide meaningful recommendations to the Legislative Finance Committee (LFC) to forward to the 2003 legislature

The study focused on the commitment process to the Montana State Hospital and to community services, and transitions to intensive services in the community.

The HJR 1 Subcommittee recommended five bill drafts for consideration by the LFC and that the LFC review options to cap the Montana State Hospital (MSH) population at its November 2002 meeting. The LFC approved all five bills.

## PROPOSED LEGISLATION

The five bills recommended by the LFC are summarized as follows:

- A bill to adopt an affirmative definition of "mental disease or defect" in response to the Montana Supreme Court case *State v. Wooster*. In that case, the court adopted the New York definition since Montana statute was silent
- A bill to refine the statutory distribution of the alcohol tax allocated to DPHHS. The subcommittee recommended that 20 percent of the proceeds be allocated to the state approved chemical dependency programs and 6.6 percent be used for services to treat persons who have a serious and disabling mental illness and who are chemically dependent. The August 2002 Special Session temporarily diverted the state approved program share of the alcohol tax to match Medicaid costs for mental health services. Effective June 30, 2002, without changes recommended by the subcommittee, state approved programs would receive alcohol tax proceeds that remained after the legislature had made its appropriations from the proceeds allocated to DPHHS
- A bill placing a limit on the period of confinement for those found not guilty by reason of insanity following language from Utah. The language would limit the period of confinement to no longer than would have been imposed if the person were convicted of the crime for which he or she was charged
- A bill regarding an involuntary mental illness commitment to the community. The bill specifies that a community commitment be for a period of three months unless there has been a previous involuntary commitment for inpatient treatment for which a community commitment may be made for no more than six months. In order for a previous inpatient treatment to be admissible in a community commitment determination, a judge must find



- admission of such evidence is relevant to the criteria of predictability and outweighs the potentially prejudicial effects of such evidence
- A bill to statutorily authorize counsel, after consultation with the client and when determined to be in the client's best interest, to authorize expedited access to treatment in order to reduce the threat of injury to self or others. This is proposed in response to the recent K.G.F. decision by the Montana Supreme Court.

## **CAPPING THE MSP POPULATION**

The HJR 1 Subcommittee heard testimony from Department of Public Health and Human Services (DPHHS) staff about proposals to cap the MSH population at its final meeting. One suggestion was to contract with Behavioral Health Inpatient Facilities (BHIFs), which was included in the revised Executive Budget published in November 2002. Since the proposal was not brought to the subcommittee prior to the last meeting, it was not reviewed by the subcommittee.

## FUND BALANCE ADEQUACY / RESERVES

Experts indicate that recovery from the recent economic downturn will be slow. Events of the past 18 months have shown that the state's fiscal stability is not immune to economic and political changes, globally and nationally. General economic factors that have had an impact resulting in much slower growth in state revenues during fiscal 2003 include significantly reduced values in equity markets and lower interest rates. The economic outlook for the 2005 biennium remains uncertain.

Attaining general fund budget stability means more than setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The adequacy of the state fund balance can signify the difference between whether or not the state is forced to confront the unpleasant consequences of fiscal instability.

Montanans are all too familiar with the consequences of general fund balance inadequacy. In the late 1980's and early 1990's, the state general fund experienced a deficit between revenues and disbursements. Much of the growth in the disbursement rate is a result of natural growth in expenditures due to inflation and/or caseload and enrollment increases, as well as supplemental spending for such contingencies as fire suppression. Revenue growth in the state has not always kept pace with expenditure growth. During the current 2003 biennium, actual revenue growth has been well below forecasts, primarily because of reduced income tax collection and lower interest rates, circumstances that could not be predicted when the 2003 biennium budget was being approved.

The Fifty-seventh Legislature adjourned from the 2001 regular session with a projected 2003 biennium general fund ending balance of \$54 million (2.3 percent of biennial appropriations). While revenues came in strong for the first months of the biennium, in November 2001 the Legislative Fiscal Division reported a significant downturn in general fund revenues. By the end of the first fiscal year, revenue estimates for the biennium had dropped \$153 million. In June 2002, the Governor directed statutory spending reductions of \$23 million in fiscal 2003 and called the legislature into special session to close the remaining gap to achieve an acceptable ending fund balance reserve. The legislature adopted \$59 million in budget balancing actions and adjourned with a \$40 million projected balance. Revenues still remain unstable as the Fifty-eighth Legislature prepares for deliberation of the 2005 biennium budget.

Recognizing that budgetary imbalances occur, the state can either take a reactive or a proactive approach. During the 1993 and 1995 biennia, the state held three special legislative sessions to deal with budget shortfalls. Another occurred in August of 2002. Although special sessions allow lawmakers the ability to address issues relative to revenues and expenditures, special sessions can cost the taxpayers approximately \$47,000 per day. The need for special sessions is also closely scrutinized by the national agencies that rate the state's debt. Rating agencies also use a state's general fund balance as a percent of revenues as one of the key financial indicators for credit analysis.

Again from a reactive stance, budgetary fluctuation can be temporarily resolved through spending reductions. In accordance with 17-7-140, MCA, the Governor can authorize spending reductions: *"...in an amount that ensures that the projected ending general fund balance for the biennium will be at least 1 percent of all general fund appropriations during the biennium."* Essentially, the executive branch assumes control of the budget decision-making process by implementing and prioritizing spending reductions. Further, budgetary imbalances can be addressed only from one side of the equation -- expenditures. This means that legislative priorities could potentially get lost in the process.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, a more effective method may be to approach these issues proactively through provision of adequate fund balance reserves. National fiscal experts such as the National Conference of State Legislatures (NCSL) recommend a reserve fund balance of three to five percent of total appropriations or revenues. Because Montana's budget is implemented on a biennial basis -- resulting in considerably more risk than an annual budgeting process -- the three to five percent should be applied to biennial totals. At a minimum, the budget process should include a general fund ending fund balance of 2.5 percent of total biennial appropriations or revenues. For Montana, with a total general fund budget of \$2.6 billion, this equates to a \$65.0 million ending fund balance. The revenue volatility during the current biennium might suggest that a higher reserve would be more prudent. The Executive Budget proposes an ending fund balance of approximately \$50 million, or 1.9 percent.

The provision of an adequate general fund balance is essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases. It is even more important since Montana is one of only four states that does not have a rainy day fund provision. To this end, the legislature will again need to determine what amount of ending fund balance is sufficient to ensure budget stability.

## ACCRUALS

The following figure shows all "A" accruals booked by agencies at fiscal 2002 year end, along with the amount paid as of October 20, 2002. Accruals are items that were expended by agencies in fiscal 2002 for materials/services that had not been received by the end of the fiscal year. In many cases, the materials or services are either cancelled or never received, and the expenditure is never completed. Yet the expenditure has been included in the base budget used to develop the 2005 budget, and is not a valid base increase.

LFD staff has recommended that \$240,000 general fund and \$2,400,000 total funds in the Department of Public Health and Human Services could be eliminated. In addition, the Office of Public Instruction accrual is a mistake and can be removed. These reductions will be considered by the appropriate joint appropriations subcommittees.

Staff continues to monitor many of the accruals that have yet to be paid. Updates will be provided to the legislature during budget establishment as necessary.

| Figure 9<br>"A" Accruals in Agency Budgets<br>Fiscal 2002 as of Fiscal Year End |                     |                      |                     |
|---|---------------------|----------------------|---------------------|
| Section/Agency  | Fiscal 2002         |                      | Paid as of          |
|   | General Fund        | Other Funds          | 20-Oct              |
| <b>Section A</b>  |                     |                      |                     |
| Legislative Branch  | \$ 216,432          | \$ 497               | \$94,358            |
| Consumer Counsel  | 0                   | 0                    | 0                   |
| Judiciary   | 20,880              | 0                    | 20,880              |
| Mt. Chiropractic  | 0                   | 0                    | 0                   |
| Governor's Office   | 364,606             | 0                    | 84,806              |
| Secretary of State  | 0                   | 0                    | 0                   |
| COPP  | 0                   | 0                    | 0                   |
| State Auditor   | 0                   | 0                    | 0                   |
| Transportation  | 0                   | 8,500,437            | 4,688,341           |
| Revenue   | 0                   | 0                    | 0                   |
| Administration  | 27,309              | 33,518               | 11,770              |
| Appellate Defender  | 0                   | 0                    | 0                   |
| <b>Section B</b>  |                     |                      |                     |
| PHHS  | 380,709             | 2,689,407            | 288,290             |
| <b>Section C</b>  |                     |                      |                     |
| Fish, Wildlife, Parks   | 4,815               | 540,387              | 197,689             |
| Env. Quality*   |                     |                      |                     |
| Livestock   | 0                   | 0                    | 0                   |
| DNRC  | 471,154             | 1,122,009            | 783,312             |
| Agriculture   | 114,841             | 1,227,046            | 246,973             |
| Commerce  | 60,108              | 1,308,719            | 349,071             |
| <b>Section D</b>  |                     |                      |                     |
| PSC   | 0                   | 2,711                | 2,711               |
| Crime Control   | 7,776               | 33,624               | 22,547              |
| Justice   | 486,613             | 54,989               | 115,776             |
| Corrections   | 0                   | 93,376               | 93,376              |
| Labor/Industry  | 0                   | 187,355              | 134,596             |
| Military Affairs  | 153,616             | 93,830               | 114,844             |
| <b>Section E</b>  |                     |                      |                     |
| OPI   | 1,500               | 0                    | 0                   |
| Board of Public Ed  | 0                   | 0                    | 0                   |
| MSDB  | 0                   | 0                    | 0                   |
| MUS   | 0                   | 0                    | 0                   |
| Arts Council  | 0                   | 8,575                | 0                   |
| Library Commish   | 2,522               | 96                   | 2,618               |
| Historical Society  | 6,870               | 111,597              | 44,662              |
| <b>Total</b>  | <b>\$ 2,319,751</b> | <b>\$ 16,008,173</b> | <b>\$ 7,296,620</b> |

## UNIFIED COMPUTER BUDGET

This section discusses the requirement for a “unified computer budget” as provided for in 17-7-123(1)(e)(iii), MCA. This statute provides that requests for funding for information technology (IT) expenditures be presented in a summary form. Therefore, information technology requests are reflected in two ways: 1) as part of the specific agency and program requests in Volumes 3 and 4 of the *Legislative Budget Analysis*; and 2) in a summary of “significant” decision packages in the *2005 Biennium Executive Budget* and as discussed below. This section provides background, a summary of the “significant” IT decision packages, and a discussion of a related issue for consideration by the legislature.

### BACKGROUND

The use of technology in the everyday operations of state government has grown, and almost every announcement of new hardware or software is designed to provide improved government services and to enhance the ability of workers to perform. Consequently, information technology is an area of expenditure in state government that has seen considerable growth in recent years. Budgets for various technology-related items have demanded a larger and more significant share of the overall budget. It has become increasingly difficult for legislators to sort through this category of the budget and make decisions that represent a clear path to the most efficient and effective use of information technology and state funds. While there have been various efforts over the years to develop policies and guidelines and to coordinate the application of technology within state government, the legislature has continued to experience difficulty in “getting their arms around” this budget area.

The 1999 legislature took a couple of steps that were intended to solve this dilemma. First, in HB 2, it required the Office of Budget and Program Planning (OBPP) to “*provide to the legislature no later than November 15, 2000, by agency and program, a report showing information technology-related actual and adjusted expenditures in fiscal year 2000 and budgeted amounts for each year of the 2003 biennium.*” Second, in HB 2, it established an interim study of information technology management and policies, and the presentation of budget requests in a form that better enables the legislature to review and make policy decisions for this area of budget and policy. A subcommittee of the Legislative Finance Committee (LFC), with aid from the Legislative Fiscal Division (LFD) and executive branch staff, performed the interim study. A final report was issued September 15, 2000 and provided recommendations for legislation to address information technology (IT) governance changes. This report is available upon request from the Legislative Fiscal Division.

In response to the LFC interim study, the 2001 legislature enacted SB 131, which continued the requirement for the executive to provide a summary of information technology budget requests. The legislation went much further by reorganizing IT administration and planning, establishing a Chief Information Officer (CIO) position to oversee the IT activities from a statewide perspective, creating an information technology board, and setting forth legislative policy guidelines. The legislation also provided a direct link between IT planning and budgeting, by requiring a unified information technology summary as part of the Executive Budget.

During the interim, the office headed by the newly appointed CIO developed the first ever statewide IT plan, and agencies prepared agency IT strategic plans under the statewide strategies and newly developed IT requirements. Agency budget submissions for the 2005 biennium are, for the first time, linked to IT strategic planning.

## SUMMARY OF INFORMATION TECHNOLOGY REQUESTS FOR THE 2005 BIENNIUM

Figure 10 lists the most “significant” IT-related decision packages (i.e., IT-related decision packages with requests of \$300,000 or more for the biennium) as identified in the “unified information technology summary” of the 2005 Biennium Executive Budget. These present law adjustments and new proposals total \$20.9 million for the biennium, and represent a large majority of all IT-related HB 2 requests. Brief descriptions of each can be found in the respective agency sections in Volumes 3 and 4 of this publication. It should be made clear that this summary does not incorporate the IT-related budgets included in the base budgets for the various state agencies or IT-related budget requests that are not classified as significant (IT program changes in excess of \$300,000 for the biennium).

| Figure 10<br>Unified Computer Budget<br>Significant IT-Related Decision Packages (>\$300,000 Total Cost)<br>2005 Biennium |   |           |                  |                    |                     |                    |                     |
|---|---|-----------|------------------|--------------------|---------------------|--------------------|---------------------|
| Agency  | Decision Package                          | Ref. No.* | General Fund     | State Special      | Federal Funds       | Proprietary Funds  | Total               |
| Judiciary   | Judicial Branch Info Technology           | NP 8001   | \$0              | \$3,408,917        | \$0                 | \$0                | \$3,408,917         |
| Secretary of State  | Information Technology Plan               | NP 2      | 0                | 0                  | 0                   | 1,055,000          | 1,055,000           |
| Justice   | Motor Vehicle Registration Automation     | NP 8003   | 0                | 3,900,000          | 0                   | 0                  | 3,900,000           |
| Environmental Quality   | One Stop Grant - Biennial Appropriation   | PL 88     | 0                | 0                  | 500,000             | 0                  | 500,000             |
| Transportation  | Integrated Financial Systems              | NP 102    | 0                | 0                  | 8,000,000           | 0                  | 8,000,000           |
|   | Traffic Data Processing Software          | PL 5004   | 0                | 98,376             | 301,624             | 0                  | 400,000             |
| Revenue   | Additional Funding for POINTS Maintenance | NP 210    | 600,000          | 0                  | 0                   | 0                  | 600,000             |
|   | Discontinue POINTS Phase II **            | NP 210    | -386,459         | 0                  | 0                   | 0                  | -386,459            |
|   |   | & NP 809  |                  |                    |                     |                    |                     |
| Administration  | Public Safety Communications              | NP 701    | 0                | 0                  | 2,250,000           | 0                  | 2,250,000           |
|   | Statewide Centerline Roadway GIS          | NP 702    | 0                |                    |                     | 518,449            | 518,449             |
|   | Project Management Support                | NP 703    | 0                | 0                  | 0                   | 630,503            | 630,503             |
|   | Total                                     |           | <u>\$213,541</u> | <u>\$7,407,293</u> | <u>\$11,051,624</u> | <u>\$2,203,952</u> | <u>\$20,876,410</u> |

Although the total shown in Figure 10 is about 25 percent greater than the total listed for the previous biennium (2003 Biennium Legislative Budget Analysis), the general fund amount requested is considerably less than for the 2003 biennium. General fund decision packages for the 2005 biennium reflect a \$0.2 million increase, while 2003 biennium “significant” decision packages showed a \$2.3 million increase in general fund spending, a significant swing toward efforts to balance the 2005 biennium budget.

**LFD  
ISSUE**

The summary of information technology requests as submitted in the Executive Budget, although apparently consistent with legislative direction, lacks sufficient data to adequately analyze this specific area of state expenditures. The summary includes only the largest of the IT decision packages, with no comparison to the base IT budget. Over the years, the legislature has struggled a great deal in trying to understand the magnitude of IT costs, the diversity of applications, and the common issues of budgeting for agency IT costs. The efforts of the Legislative Finance Committee during the 1999-2000 interim and the 2001 legislature (SB 131) to redefine how IT budgets are reviewed are lost if adequate information is not provided. The legislature should see the whole picture, not just a fraction of the IT spending picture. The 2003 biennium Executive Budget provided considerably more detail than this recent submission for the 2005 biennium. The 2003 biennium information reflected total state IT expenditures of \$165.5 million in fiscal 2000. HB 2 IT expenditures were \$77.9 million. This shows that the decision packages listed in Figure 10 and adding up to \$20.9 million are a very small fraction of total state IT costs. The legislature may wish to clarify that the IT budget request summary should include the base budget requests as well as the present law and new proposal decision packages. This clarification would require a statutory change to language in 2-17-526 and 17-7-111(4)(b), MCA, and possibly to 17-7-123(1)(e)(iii), MCA.

## OTHER MAJOR FUNDS

### HIGHWAYS STATE SPECIAL REVENUE ACCOUNT DECLINING WORKING CAPITAL BALANCE

The 2003 legislature is faced with a declining working capital balance in the highways state special revenue account. The account is projected to end fiscal 2005 with a working capital balance of \$10.2 million, which is down from a \$51.4 million balance at the end of fiscal 2002. Projections indicate that expenditures will exceed revenues by \$21.0 million in the 2005 biennium, with the imbalance continuing in future biennia.

Revenues to the account, which are from highway user fees primarily comprised of motor fuel tax collections and gross vehicle weight fees, are expected to increase at an average annual growth rate of 0.7 percent. Revenue growth is not expected to keep pace with rising expenditure levels and inflationary increases associated with highway construction and related programs. The inelasticity of program revenues has contributed to the chronic deficit spending imbalance of this program.

Deficit spending is a key contributor to the projected decline in working capital balance. Without actions to bring revenue and expenditure growth rates more in line with each other, the account is projected to continue to decline and could begin to impact the ability of the Department of Transportation to provide for the needs of the state highway infrastructure.

This issue is presented in more detail in the Department of Transportation budget discussion in Volume 3, General Government and Transportation Section; page A-104.

### RESOURCE INDEMNITY TRUST – FUND BALANCE SHORTFALLS

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, *“The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000) guaranteed by the state against loss or diversion.”* In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the \$100.0 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several funds discussed below.

The executive is recommending a number of changes in the distribution of proceeds and interest that have a major impact on accounts that receive all or a portion of their revenues from these sources. The following discusses the accounts and attendant issues. For a further discussion, see the narrative for the Department of Natural Resources and Conservation beginning on page C-123 of Volume 4.

Figure 11 shows the first three of four elements of RIT as proposed by the executive. The first element shows the RIT revenues and trust balance using the Revenue and Transportation Committee (RTIC) projections for fiscal years 2003, 2004, and 2005. As of 2002 fiscal year end, the RIT trust had a balance of approximately \$102.1 million.



Figure 11

Resource Indemnity Trust (RIT): Interest Earnings, and Related Expenditure Accounts  
2005 Biennium Projections (Including Executive Proposals and Appropriation Requests)

|  |                    |                    |                    |                       |
|--|--------------------|--------------------|--------------------|-----------------------|
| <b>1</b>   |                    |                    |                    |                       |
| <b>RIT Revenues (RTIC estimates)</b>                         | <u>Fiscal 2002</u> | <u>Fiscal 2003</u> | <u>Fiscal 2004</u> | <u>Fiscal 2005</u>    |
| Projected Beginning Balance FY 2003                          |                    | \$102,065,653      | \$100,000,979      | \$100,000,979         |
| <b>Fund Balance Allocations/Transfers</b>                    |                    |                    |                    |                       |
| DNRC Funding Switch with General Fund                        |                    | (1,000,000)        |                    |                       |
| Weed Eradication   |                    | (300,000)          |                    |                       |
| Water Treatment (\$540K)                                     |                    | (540,000)          |                    |                       |
| Clark Fork River Study                                       |                    | (120,000)          |                    |                       |
| Subdivisions, Cons. Dist., Irrigation Grants                 |                    | (100,000)          |                    |                       |
| Total Deposits/Legislative Changes                           |                    | (\$2,060,000)      |                    |                       |
| RIGWAT Coal, Oil, Natural Gas Proceeds                       |                    | (4,675)            |                    |                       |
| <b>RIT Trust Balance</b>                                     | \$102,065,653      | \$100,000,979      | \$100,000,979      | \$100,000,979         |
| <b>2</b>   |                    |                    |                    |                       |
| <b>RIGWA and Oil and Gas Tax (RTIC estimates)</b>            | <u>Fiscal 2003</u> | <u>Fiscal 2004</u> | <u>Fiscal 2005</u> | <u>Biennium Total</u> |
| <b>RIGWA Tax</b>   | \$1,480,000        | \$3,260,000        | \$3,236,000        | \$6,496,000           |
|  | \$1,080,000        | \$1,055,000        | \$1,062,000        | \$2,117,000           |
| <u>Statutory Allocations -- RIGWA</u>                        |                    |                    |                    |                       |
| <b>Libby Clean-up Debt Service (Proposed in HB 10)</b>       |                    | <b>\$700,000</b>   | <b>\$700,000</b>   | <b>1,400,000</b>      |
| Groundwater Assessment Account-direct (02289)                | 366,000            | 355,000            | 362,000            | 717,000               |
| Reclamation & Development-50% of Remainder (02458)           | 357,000            | 0                  | 0                  | 0                     |
| Natural Resource Worker Scholarship                          | 0                  | 0                  | 0                  | 0                     |
| Orphan Share Account- Remainder of RIGWA (02472)             | <u>357,000</u>     | 0                  | 0                  | <u>0</u>              |
| <b>TOTAL RIGWA STATUTORY ALLOCATIONS</b>                     | 1,080,000          | 1,055,000          | 1,062,000          | 2,117,000             |
| <b>Applicable Oil and Gas Tax</b>                            | <u>\$400,000</u>   | <u>\$2,205,000</u> | <u>\$2,174,000</u> | <u>\$4,379,000</u>    |
| <u>Applicable Portion of Oil and Gas</u>                     |                    |                    |                    |                       |
| Coal Bed Methane Protection                                  | 400,000            | 400,000            | 400,000            | 800,000               |
| <b>General Fund</b>  | 0                  | <b>1,805,000</b>   | <b>1,774,000</b>   |                       |
| Reclamation & Development-50% of Remainder (02458)           | 0                  | 0                  | 0                  | 0                     |
| Orphan Share Account-50% of Remainder (02472)                | 0                  | 0                  | 0                  | 0                     |
| <b>TOTAL Oil and Gas STATUTORY ALLOCATIONS</b>               | 400,000            | 2,205,000          | 2,174,000          | 4,379,000             |
| <b>TOTAL RIGWA &amp; OIL AND GAS ALLOCATIONS</b>             | \$1,480,000        | \$3,260,000        | \$3,236,000        | \$6,496,000           |
| <b>3</b>   |                    |                    |                    |                       |
| <b>RIT Interest Earnings (RATC estimates)</b>                | <u>Fiscal 2003</u> | <u>Fiscal 2004</u> | <u>Fiscal 2005</u> | <u>Biennium Total</u> |
| Priority Statutory Allocations of Interest                   | \$7,377,000        | \$7,379,000        | \$7,380,000        | \$14,759,000          |
| Environmental Contingency Account (02107)**                  | 0                  | (175,000)          | 0                  | (175,000)             |
| Oil & Gas Prod. Damage Mitigation Account (02010)***         | 0                  | (50,000)           | 0                  | (50,000)              |
| Water Storage Account (02216)                                | 0                  | (500,000)          | 0                  | (500,000)             |
| Groundwater Assessment Account-Direct (02289) ****           | (300,000)          | (300,000)          | (300,000)          | (600,000)             |
| MSU-Northern Statutory Appropriation (02272)                 | (240,000)          | (240,000)          | (240,000)          | (480,000)             |
| <b>Fish, Wildlife, and Parks -- Future Fisheries (02022)</b> | <b>(350,000)</b>   | <b>(250,000)</b>   | <b>(250,000)</b>   | <b>(500,000)</b>      |
| Renewable Resource Grant & Loan Program (02272)              | (2,000,000)        | (2,000,000)        | (2,000,000)        | (4,000,000)           |
| Reclamation & Development Grants (grants) (02458)            | <u>(1,200,000)</u> | <u>(1,200,000)</u> | <u>(1,200,000)</u> | <u>(2,400,000)</u>    |
| Total Allocations  | (\$4,090,000)      | (\$4,715,000)      | (\$3,990,000)      | (\$8,705,000)         |
| Amount Available for Further Distribution                    | \$3,287,000        | \$2,664,000        | \$3,390,000        | \$6,054,000           |

Since the RIT reached the constitutionally mandated level of \$100.0 million, the excess trust balance was available for transfer and appropriation. In the order of priority, the legislature transferred and appropriated: 1) \$1.0 million for a funding switch in DNRC; 2) \$300,000 for the purpose of weed

eradication; 3) \$540,000 for the purpose of purchasing securities for water treatment at the former Zortman and Landusky mines; 4) \$120,000 for a Clark Fork River study; and 5) up to \$100,000 for conservation and irrigation district grants. After these transfers, the RIT trust is estimated to be \$100.0 million.

The second element shows the statutory allocations of resource indemnity and groundwater assessment taxes (RIGWA) and the applicable portion of the oil and gas tax. The RIGWA tax and the applicable portion of oil and gas taxes are distributed to a number of natural resource accounts. The following describes the current law revenue sources of the main RIT funds, and is shown in Figure 11:

- RIGWA – The state imposes a resource indemnity and groundwater assessment (RIGWA) tax on the gross value of coal, as well as most minerals, excluding metals and oil and natural gas. Beginning in fiscal 2003, the first \$366,000 of the RIGWA tax is deposited into the groundwater assessment account. Of the remainder, 50 percent is deposited into the reclamation and development account (R&D) for the purpose of making grants to be used for mineral development reclamation projects. Starting in fiscal 2004, an amount is deposited into an account for natural resource worker scholarships to bring the total in that program to \$150,000. All remaining funds are deposited into the orphan share account. The money in the orphan share account is available to the department by appropriation and must be used to reimburse remedial action costs and to pay costs incurred defending the orphan share.

The executive is proposing the following changes that affect the distribution of RIGWA:

- Legislation proposed by the Office of Budget and Program Planning would provide an EPA funding match through the issuance of up to \$9.0 million in bonds (authorized under 75-10-623, MCA) that would be used to clean up the Libby and Troy areas
- Based upon Revenue and Transportation Interim Committee revenue projections, \$1.0 million will be generated from RIGWA. If the first \$700,000 of the RIGWA tax was used for debt service, the reclamation and development, groundwater assessment, and orphan share accounts would have reduced projected ending fund balances. Further, SB 322, passed during the 2001 legislative session, modified 15-38-106, MCA, and created a natural resource workers education scholarship program. Based upon the level of RIGWA revenue projections, it is unlikely that this scholarship program would continue to receive distributions and no funds would go to the R&D or orphan share accounts
- Applicable portion of oil and gas taxes – A portion of oil and natural gas production taxes are distributed to the main RIT natural resource funds. 15-36-324 (9)(c), MCA, directs the first \$400,000 into the coal bed methane protection account. The remainder of the applicable portion of oil and gas proceeds are split, with 50 percent going to the R&D fund and 50 percent to the orphan share fund.

The executive is proposing the following change that affects the distribution of the applicable portion of oil and gas taxes:

- The executive is proposing legislation to divert all remaining funds, after the \$400,000 distribution to the coal bed methane account, to the general fund. As a consequence, the R&D and the orphan share accounts would again receive no revenues from this source
- Metalliferous mines taxes - seven percent of this funding source is directed to the reclamation and development account.

The executive is proposing the following change that affects the distribution of metalliferous mines tax:

- Legislation proposed by the executive would divert seven percent of the metalliferous mines tax from the R&D to the general fund. As proposed, the diversion would continue until the end of the 2005 biennium

### ***Trust Interest***

The third element shows the amount of interest generated by the RIT and the amounts that are allocated by statute for specific purposes in the 2003 biennium. 15-38-202, MCA, directs how interest from the RIT trust will be allocated. Driven by RTIC estimates, \$14.8 million of interest is allocated to a number of sources. The constitution does not restrict the spending of interest from the RIT. For the 2003 biennium, statute allocates \$8.7 million of the interest for eight purposes.

The executive has proposed the following change to the direct interest allocation from the RIT:

- The executive is proposing legislation to reduce the direct interest allocation to the Department of Fish, Wildlife, and Parks for future fisheries projects by \$100,000 each year of the biennium

After the proposed change, Figure 12 shows direct interest allocations from the RIT for the 2005 biennium.

Once the direct allocations are made, seven main accounts that receive RIT interest and other revenues are shown in the fourth element. Any interest remaining is now allocated as follows for appropriation by the legislature in HB 2:

- 25.5 percent to the renewable resource account, which funds programs in the Judiciary, Department of Natural Resources and Conservation, State Library Commission, MSU Northern, and the Governor's Office
- 45.0 percent to the reclamation and development account, which funds programs in the Department of Environmental Quality, Department of Natural Resources and Conservation, and the State Library Commission – This account also receives portions of the RIGWA and the applicable portion of oil and gas tax proceeds
- 22.0 percent to the hazardous waste/CERCLA account, which funds remediation activities in the Department of Environmental Quality
- 7.5 percent to the environmental quality protection fund, which funds remediation activities in the Department of Environmental Quality

Figure 12  
Resource Indemnity Trust  
Direct Allocation of Interest  
2005 Biennium

| Purpose   | Source of Appropriation Authority | Amount        |
|---|-----------------------------------|---------------|
| 1 Environmental Contingency Account             | Statutory                         | (\$175,000)   |
| 2 Oil & Gas Prod. Damage Mitigation Account     | Statutory                         | (50,000)      |
| 3 Water Storage Account                         | HB 2                              | (500,000)     |
| 4 Groundwater Assessment Account                | HB 2                              | (600,000)     |
| 5 MSU-Northern Statutory Appropriation          | Statutory                         | (480,000)     |
| 6 Fish, Wildlife, and Parks -- Future Fisheries | HB 5                              | (500,000)     |
| 7 Renewable Resource Grant & Loan Program       | HB 6                              | (4,000,000)   |
| 8 Reclamation & Development Grants              | HB 7                              | (2,400,000)   |
| Total Direct Allocation of Interest From RIT    |                                   | (\$8,705,000) |

## Fund Balances

Of the seven tracked funds that derive income from the RIT related sources, four are projected to have a negative balance at the end of the 2005 biennium based upon the Executive Budget. At any given point in time, each of these fund balances may be higher than presented. Each of these ending fund balances are calculated to reflect the amount of money expected to be available for legislative appropriation after requested new proposals and present law adjustment are taken into account. These balances are shown in Figure 13.

| <div>4</div> <div>Figure 13</div>                      |                                  |   |                                 |  |  |                             |                            |
|--|----------------------------------|---|---------------------------------|--|--|-----------------------------|----------------------------|
| Related Expenditure Accounts<br>(2005 biennium totals) | Renewable<br>Resource<br>(02272) | Reclamation &<br>Development<br>(02458) | Haz. Waste<br>CERCLA<br>(02070) | Environmental<br>Quality Protect.<br>(02162) | Groundwater<br>Assessment<br>(02289)**** | Water<br>Storage<br>(02216) | Orphan<br>Share<br>(02472) |
| Further Distribution % of RIT Interest                 | 25.5%                            | 45%                                     | 22%                             | 7.5%   | 0%                                       | 0%                          | 0%                         |
| Beginning Fiscal 2003 Fund Balance (SABHRS)            | \$1,735,291                      | \$1,892,201                             | \$316,945                       | \$522,451                                    | \$252,454                                | \$1,355,112                 | \$4,224,786                |
| Continuing Appropriations                              | (3,021,609)                      | (4,543,177)                             | 0                               | (150,000)                                    | 0  | (511,136)                   | (2,135,381)                |
| Reserved for Long-Term Assets (Outstanding Loans)      | (362,823)                        |   |                                 |  |  | (1,993,831)                 |                            |
| Long-term Liability                                    |                                  |   |                                 |  |  | 836,946                     |                            |
| Fiscal 2003 Appropriations                             | (1,578,116)                      | (3,388,647)                             | (967,846)                       | (826,407)                                    | (666,000)                                | 0                           | (26,018)                   |
| Fiscal 2003 Legislative Adjustments                    | 0                                | 1,000,000                               | 0                               | 0  | 0  | 0                           | (1,000,000)                |
| Fiscal 2003 revenues (RTIC, Agency Estimates)          | 3,093,185                        | 3,036,150                               | 732,140                         | 503,525                                      | 666,000                                  | 641,966                     | 357,000                    |
| Projected Available Fund Balance Beginning FY2004      | (\$134,072)                      | (\$2,003,473)                           | \$81,239                        | \$49,569                                     | \$252,454                                | \$329,057                   | \$1,420,387                |
| Revenues (RTIC, Agency Estimates)                      |                                  |   |                                 |  |  |                             |                            |
| RIT Interest-direct                                    | \$4,480,000                      | \$2,400,000                             |                                 |  | \$600,000                                | \$500,000                   |                            |
| RIT Interest-further allocation by above %             | 1,543,770                        | 2,724,300                               | 1,331,880                       | 454,050                                      |  |                             |                            |
| RIGWA Proceeds   |                                  | 0                                       |                                 |  | 717,000                                  |                             | -                          |
| Metal mines tax (7%)                                   |                                  | 0                                       |                                 |  |  |                             |                            |
| Sweep of Excess Coal Tax & Interest (from 04011)       |                                  |   |                                 |  |  |                             |                            |
| STIP/Other Interest                                    |                                  |   | 18,000                          | 14,000                                       |  | 34,000                      |                            |
| Cost Recoveries  |                                  |   |                                 | 1,450,000                                    |  |                             |                            |
| <b>Transfers</b>                                       |                                  |   | <b>600,000</b>                  |  |  |                             | <b>(600,000)</b>           |
| Administrative Fees                                    | 55,000                           |   |                                 |  |  |                             |                            |
| State-owned Project Revenue                            | -                                | -                                       | -                               | -  | -  | 173,000                     | -                          |
| Total Revenues   | \$6,078,770                      | \$5,124,300                             | \$1,949,880                     | \$1,918,050                                  | \$1,317,000                              | \$707,000                   | (\$600,000)                |
| Executive Appropriations                               |                                  |   |                                 |  |  |                             |                            |
| House Bills 6 and 7 Grants (Executive Recommended)     | \$4,000,000                      | \$2,400,000                             |                                 |  |  |                             |                            |
| House Bill 6-Emergency/Private Grants (Recommended)    |                                  |   |                                 |  |  |                             |                            |
| MSU-Northern (Statutorily Appropriated)                | 480,000                          |   |                                 |  |  |                             |                            |
| UM-Bureau of Mines                                     |                                  |   |                                 |  | \$1,332,000                              |                             |                            |
| DNRC-Conservation and Resource Devel. Division         | 649,282                          | 1,000,000                               |                                 |  |  |                             |                            |
| DNRC-Water Resources Division                          |                                  |   |                                 |  |  | 1,870,000                   |                            |
| DEQ-Central Management                                 |                                  | 72,527                                  | 37,172                          | 1,705  |  |                             |                            |
| DEQ-Planning, Prevention & Assistance                  |                                  |   | \$322,013                       |  |  |                             |                            |
| DEQ-Enforcement  |                                  | 9,463                                   |                                 |  |  |                             |                            |
| DEQ-Remediation  |                                  |   | 424,032                         | 1,903,195                                    |  |                             | 2,664,296                  |
| DEQ-Permitting & Compliance                            |                                  | 3,058,285                               | 1,054,377                       |  |  |                             |                            |
| Governor's Office-Flathead Basin Commission            | 90,020                           |   |                                 |  |  |                             |                            |
| Judiciary-Water Court                                  | 1,444,788                        |   |                                 |  |  |                             |                            |
| Library Commission-NRIS                                | 0                                | 367,412                                 |                                 |  |  |                             |                            |
| Library Commission-State Library Operations            | 415,110                          |   |                                 |  |  |                             |                            |
| House Bill 13 (executive pay plan estimate)            | -                                | -                                       | -                               | -  | -  | -                           | -                          |
| Total Appropriations                                   | \$7,079,200                      | \$6,907,687                             | \$1,837,594                     | \$1,904,900                                  | \$1,332,000                              | \$1,870,000                 | \$2,664,296                |
| <b>Projected 2005 Biennium Ending Balance</b>          | <b>(\$1,134,502)</b>             | <b>(\$3,786,860)</b>                    | <b>\$193,525</b>                | <b>\$62,719</b>                              | <b>\$237,454</b>                         | <b>(\$833,943)</b>          | <b>(\$1,843,909)</b>       |

\*\* The Governor must report on the expenditures from the environmental contingency account in the Executive Budget. Expenditures are statutorily appropriated.

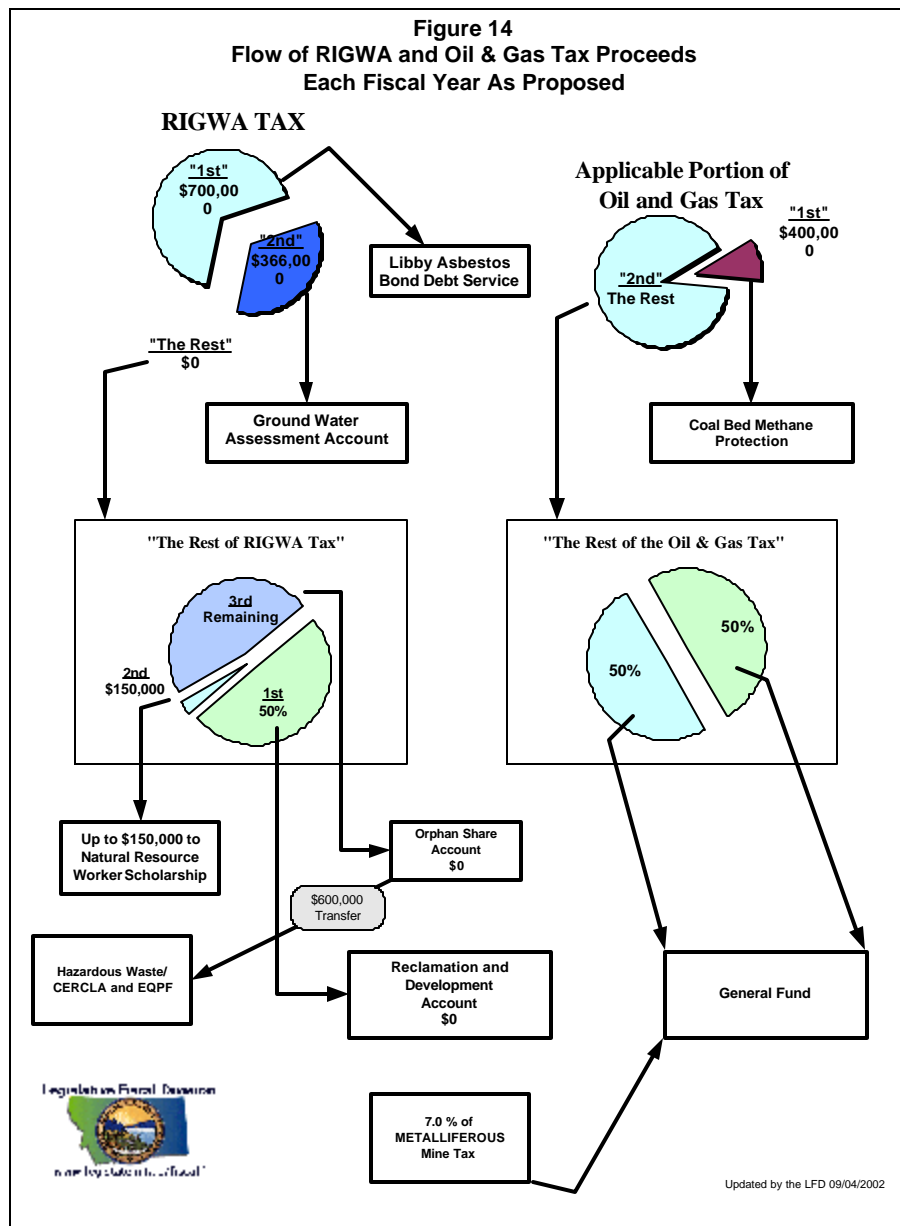
\*\*\* Amounts are deposited to the oil & gas production damage mitigation account to bring the balance up to \$200,000 (82-11-161, MCA). All money in the account is statutorily appropriated.

\*\*\*\* Amounts are deposited to the groundwater assessment account to bring the balance up to \$666,000.

The executive has proposed the following change that could affect the ending fund balance of three RIT related funds:

The executive is proposing legislation that would allow the department to transfer up to \$600,000 of funds to the hazardous waste CERCLA and/or the environmental quality protection fund to provide a source of cash to fund appropriations made in HB 2. This proposed change is problematic for two reasons: 1) without a transfer to the hazardous waste CERCLA account, that account is projected to have a negative fund balance of \$406,475 at the end of the 2005 biennium; and 2) the transfer is proposed to come from the orphan share fund. Before a transfer out of that fund, it is projected to have a negative fund balance of \$1.2 million at the end of the 2005 biennium.

Figure 14 shows the impacts of the proposed executive changes:



As a consequence of the executive proposals, the renewable resource, reclamation and development, and orphan share accounts are projected to have significant deficit fund balances. The following figure illustrates the impacts on the RIT fund balances of implementing tax and interest distribution changes. As shown, the "As Proposed" section represents changes for Libby debt service, diversion of the applicable portion of oil and gas tax and metaliferrous mines tax to the general fund, and the proposed decrease in the direct interest allocation to the Department of Fish, Wildlife and Parks for Future Fisheries projects. In contrast, the current law section represents tax and interest distribution levels as they came out of the August 2002 Special Session.

Figure 15  
Resource Indemnity Trust  
Current Law / Proposed  
Ending Fund Balance Difference on 2005 Projection

|   | Renewable<br>Resource<br>(02272) | Reclamation &<br>Development<br>(02458) | Haz. Waste<br>CERCLA<br>(02070) | Environmental<br>Quality Protect.<br>(02162) | Groundwater<br>Assessment<br>(02289) | Water<br>Storage<br>(02216) | Orphan<br>Share<br>(02472) |
|---|----------------------------------|---|---------------------------------|--|--------------------------------------|-----------------------------|----------------------------|
| As Proposed   | (\$1,134,502)                    | (\$3,786,860)                           | \$193,525                       | \$62,719                                     | \$237,454                            | (\$833,943)                 | (\$1,843,909)              |
| Current law (2005 projection)<br>(With Revenue Changes) | (1,185,502)                      | (704,520)                               | (450,475)                       | 47,719                                       | 252,454                              | (833,943)                   | 1,068,091                  |
| Difference  | <u>\$51,000</u>                  | <u>(\$3,082,340)</u>                    | <u>\$644,000</u>                | <u>\$15,000</u>                              | <u>(\$15,000)</u>                    | <u>\$0</u>                  | <u>(\$2,912,000)</u>       |

**LFD  
ISSUE**

The executive proposes spending from accounts that derive interest from the RIT and related funding sources that exceed anticipated revenues. Decreased revenues and increasing appropriations over the last couple of biennia have spread the RIT-related funding sources thin. The legislature may wish to examine the following options when contemplating changes to the fiscal 2005 biennium:

**Options:**

- Reduce total appropriations – In the four RIT accounts with projected negative ending fund balances, the legislature could reduce agency appropriation levels by a percentage large enough that the projected fund balances will not be negative – Those percentages would be: 1) renewable resources, 16.0 percent; 2) reclamation and development, 54.8 percent; 3) water storage, 44.6 percent; 4) orphan share, 69.2 percent
- Enact statutory changes to add enough additional revenue into each of the identified funding sources to reflect a positive projected ending fund balance
- Approve all decision packages and/or legislation that propose to change how the identified funding sources are utilized

For additional RIT information, please see the agency summary section of the Department of Natural Resources and Conservation in Volume 4, page C-123.